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Publication 527 Draft Worksheet(s)

This draft worksheet from Publication 527, [RESIDENTIAL RENTAL PROPERTY], for tax year 2006, is only available on the Internet. Since it is a draft, it is subject to change. If this worksheet is revised, it will be reposted only if there is a change in the computation. When the final version of Publication 527 becomes available, this draft will be removed.

To figure your deductible rental expenses and any carryover to next year, use Table 2.

Comments and suggestions. We welcome your comments about these worksheets.

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Draft as of
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Table 2. **Worksheet for Figuring the Limit on Rental Deductions for a Dwelling unit Used as a Home**

| | |
|---|-------|
| Use this worksheet only if you answer "yes" to all the following questions. | |
| <ul style="list-style-type: none"> • Did you use the dwelling unit as a home this year? (See <i>Dwelling Unit Used as Home</i>.) • Did you rent the dwelling unit 15 days or more this year? • Is the total of your rental expenses and depreciation more than your rental income? | |
| 1. Enter rents received | _____ |
| 2a. Enter the rental portion of deductible home mortgage interest (see instructions) | _____ |
| b. Enter the rental portion of real estate taxes | _____ |
| c. Enter the rental portion of deduction casualty and theft losses (see instructions) | _____ |
| d. Enter direct rental expenses (see instructions) | _____ |
| e. Fully deductible rental expenses. Add lines 2a–2d | _____ |
| 3. Subtract line 2e from line 1. If zero or less, enter zero | _____ |
| 4a. Enter the rental portion of expenses directly related to operating or maintaining the dwelling unit (such as repairs, insurance, and utilities) | _____ |
| b. Enter the rental portion of excess mortgage interest (see instructions) | _____ |
| c. Add lines 4a and 4b | _____ |
| d. Allowable expenses. Enter the smaller of line 3 or line 4c | _____ |
| 5. Subtract line 4d from line 3. If zero or less, enter zero | _____ |
| 6a. Enter the rental portion of excess casualty and theft losses (see instructions) | _____ |
| b. Enter the rental portion of depreciation of the dwelling unit | _____ |
| c. Add lines 6a and 6b | _____ |
| d. Allowable excess casualty and theft losses and depreciation. Enter the smaller of line 5 or line 6c | _____ |
| 7a. Operating expenses to be carried over to next year. Subtract line 4d from line 4c | _____ |
| b. Excess casualty and theft losses and depreciation to be carried over to next year. Subtract line 6d from line 6c | _____ |
| Enter the amounts on lines 2e, 4d, and 6d on the appropriate lines of Schedule E (Form 1040), Part I. | |

Worksheet Instructions

Follow these instructions for the worksheet above. If you were unable to deduct all your expenses last year, because of the rental income limit, add these unused amounts to your expenses for this year.

Line 2a. Figure the mortgage interest on the dwelling unit that you could deduct on Schedule A (Form 1040) if you had not rented the unit. Do not include interest on a loan that did not benefit the dwelling unit. For example, do not include interest on a home equity loan used to pay off credit cards or other personal loans, buy a car, or pay college tuition. Include interest on a loan used to buy, build, or improve the dwelling unit, or to refinance such a loan. Enter the rental portion of this interest on line 2a of the worksheet.

Line 2c. Figure the casualty and theft losses related to the dwelling unit that you could deduct on Schedule A (Form 1040) if you had not rented the dwelling unit. To do this, complete Form 4684, Casualties and Thefts, Section A, treating the losses as personal losses. On Form 4684, line 19, enter 10% of your adjusted gross income figured without your rental income and expenses from the dwelling unit. If your loss occurred after August 24, 2005, and was the result of Hurricane Katrina, enter zero on line 19. Enter the rental portion of the result from Form 4684, line 21, on line 2c of this worksheet.

Note. Do not file this Form 4684 or use it to figure your personal losses on Schedule A. Instead, figure the personal portion on a separate Form 4684.

Line 2d. Enter the total of your rental expenses that are directly related only to the rental activity. These include interest on loans used for rental activities other than to buy, build, or improve the dwelling unit. Also include rental agency fees, advertising, office supplies, and depreciation on office equipment used in your rental activity.

Line 4b. On line 2a, you entered the rental portion of the mortgage interest you could deduct on Schedule A if you had not rented the dwelling unit. Enter on line 4b of this worksheet the rental portion of the mortgage interest you could not deduct on Schedule A because it is more than the limit on home mortgage interest. Do not include interest on a loan that did not benefit the dwelling unit (as explained in the line 2a instructions).

Line 6a. To find the rental portion of excess casualty and theft losses, use the Form 4684 you prepared for line 2c of this worksheet.

- | | |
|--|-------|
| A. Enter the amount from Form 4684, line 10 | _____ |
| B. Enter the rental portion of A | _____ |
| C. Enter the amount from line 2c of this worksheet | _____ |
| D. Subtract C from B. Enter the result here and on line 6a of this worksheet | _____ |

Allocating the limited deduction. If you cannot deduct all of the amount on line 4c or 6c this year, you can allocate the allowable deduction in any way you wish among the expenses included on line 4c or 6c. Enter the amount you allocate to each expense on the appropriate line of Schedule E, Part I.